

Client Situation



A leading Family theme restaurant concept confronted waning sales growth, declining customer traffic, and decreasing profitability. The concept enjoyed a long history of stellar unaided brand awareness within its core geographic markets. However, brand awareness alone would not be enough to propel the company towards its ambitious growth targets. Compounding external forces such as competitive pressure and customer disaffection, coupled with an undifferentiated guest proposition, threatened to hamper long-term performance. Capital to fund expansion of company-owned restaurants was scarce as cash flow declined.

Alliance was hired to work closely with the management group to develop a cohesive multidisciplinary strategy that would enable the company to shore-up its struggling business units and spark long-term growth.

Alliance Approach

The joint Alliance-client case team digested years of internal and external customer and market research to understand the company's current context. The team also performed extensive analysis on restaurant-specific sales and customer traffic data to understand relevant trends and drivers. In addition, the case team evaluated competitive tactics including customer propositions, growth initiatives, and capital allocation practices.

A three-pronged strategy emerged, emphasizing immediate improvement in the core business while positioning the company for growth from a new franchise-based business model:

1. Differentiate The Guest Experience

Streamlined Menu

Menu analyses revealed a disproportionate number of items exhibiting low daily servings and low gross profit. Moreover, many of these items included unique ingredient SKUs and/or too many ingredients relative to competitive benchmarks. The team established that eliminating or reformulating these items would lead to decreased operational complexity, improved guest service, and increased mixed profit across the menu. Going forward, menu items would be based on standard builds and ingredient SKUs with multiple uses.

Enhanced Marketing Approach

Assessment of marketing spending showed that reach and frequency targets could be attained with slightly lower target rating point (TRP) levels per media event. Analysis of natural experiments in the market revealed no significant



correlation between slight TRP reductions and negative restaurant performance. Additionally, the company's brand-based advertising tactics were out of line relative to the call-to-action messaging employed by major competitors. The team recommended foregoing marginal TRP spending and focusing on driving traffic by increasing call-to-action advertising, supplemented by growth in radio and FSI spending.

2. Optimize Fixed Assets For Growth

Sold Underperforming Restaurants

Restaurant-specific analyses revealed that a small group of company-owned units were consistent under-performers. The team recommended selling an unencumbered subset of these under-performing restaurants to improve corporate cash flow and generate significant real estate gains, raising cash to fund elements of the new strategy.

Revamped Approach To Remodeling

Restaurant-specific analyses also showed that a large number of company-owned restaurants were in serious need of remodeling. However, analyses of the current renovations revealed that customary large-scale renovations did not produce significant returns on investment. Therefore, the team developed a two-year plan to affect as many restaurants in-need as possible with a program of small-scale customer-facing renovations. Analysis showed that this type of reduced-impact remodeling effort had a more robust track record of enhancing customer traffic and sales relative to investment.

Transitioned To Franchise-Led Growth

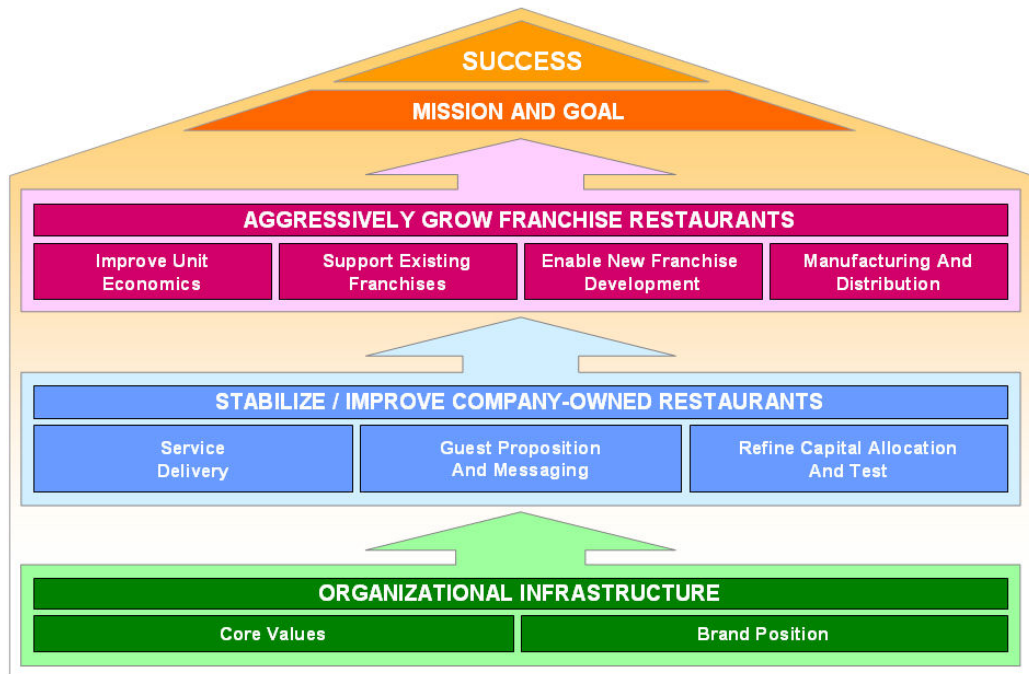
The case team also uncovered the fact that the company had not fully internalized the implications that management's growth targets had for the number of franchise units needed in the development pipeline. Significant change in the concept's unit economics were proposed in order to attract a new class of franchisees. Reaching sustained long-term growth would require a systematic methodology for tracking franchisee development, and also would require additional franchise support resources. The case team recommended the addition of real estate support personnel to perform activities designed to accelerate the franchise development process such as trade area prioritization and site selection. The team also developed a dynamic system to track the stages of franchise development, and ensure sufficient pipeline flow.

3. Organize For Success

New Structure And Processes



Before the company could begin to shore-up its existing areas of company-owned business and position itself for aggressive growth through franchising, reorganization needed to occur. Efforts of individuals, business units, and the company as a whole were not efficient, as each functional area optimized its efforts in isolation of the others. As a result of analysis and discussions with senior management, the case team recommended a series of organizational realignments designed to gear the company towards sustained long-term growth while building on shared core values.



Results and Impact

As a result of the team’s recommendations, the company began experiencing near-term improvements in corporate cash flow resulting from a new marketing approach, menu reformulations, and optimization of restaurant real estate portfolio. The company also initiated major steps towards a successful transformation from a company-owned concept to a franchise one. The reinvigorated senior management team benefited from new management processes that balance the needs of daily business operations with long-term strategic objectives.